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CABINET AFFAIRS STAFFING MEMORANDUM

DATE: 8-2-82

NUMBER: -----

DUE BY: CCCT

SUBJECT: Cabinet Council Minutes

	ACTION	FYI		ACTION	FYI
ALL CABINET MEMBERS	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Baker	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Vice President	<input type="checkbox"/>	<input type="checkbox"/>	Deaver	<input type="checkbox"/>	<input type="checkbox"/>
State	<input type="checkbox"/>	<input type="checkbox"/>	Clark	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Treasury	<input type="checkbox"/>	<input type="checkbox"/>	Darman (For WH Staffing)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Defense	<input type="checkbox"/>	<input type="checkbox"/>	Harper	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Attorney General	<input type="checkbox"/>	<input type="checkbox"/>	Jenkins	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Interior	<input type="checkbox"/>	<input type="checkbox"/>	Wheeler	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Agriculture	<input type="checkbox"/>	<input type="checkbox"/>	Kudlow	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Commerce	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Labor	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
HHS	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
HUD	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Transportation	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Energy	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Education	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Counsellor	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
OMB	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
CIA	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
UN	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
USTR	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
CEA	<input type="checkbox"/>	<input checked="" type="checkbox"/>	CCCT/Gunn	<input type="checkbox"/>	<input checked="" type="checkbox"/>
CEQ	<input type="checkbox"/>	<input type="checkbox"/>	CCEA/Porter	<input type="checkbox"/>	<input checked="" type="checkbox"/>
OSTP	<input type="checkbox"/>	<input type="checkbox"/>	CCFA/Boggs	<input type="checkbox"/>	<input checked="" type="checkbox"/>
SBA	<input type="checkbox"/>	<input checked="" type="checkbox"/>	CCHR/Carleson	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	<input type="checkbox"/>	<input type="checkbox"/>	CCLP/Uhlmann	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	<input type="checkbox"/>	<input type="checkbox"/>	CCNRE/Boggs	<input type="checkbox"/>	<input type="checkbox"/>

REMARKS: Attached are the minutes of the July 21 meeting of the Cabinet Council on Commerce and Trade; and the July 27 and July 29 meetings of the Cabinet Council on Economic Affairs.

RETURN TO:

☐ Craig L. Fuller
Assistant to the President
for Cabinet Affairs

☒ Becky Norton Dunlop
Director, Office of
Cabinet Affairs

MINUTES
CABINET COUNCIL ON ECONOMIC AFFAIRS

July 27, 1982
8:45 a.m.
Roosevelt Room

Attendees: The Vice President, Messrs. Regan, Block, Baldrige, Donovan, Pierce, Stockman, Harper, Fuller, Porter, Macdonald, Leland, Hormats, Angrisani, Jordan, Oglesby, Cicconi, Cribb, Bolton, Garrett, Bonitati, Nau, Bailey, Bledsoe, and Denend, and Ms. Dunlop.

1. Report of the Working Group on LDC Financial Problems

The Council reviewed two papers prepared by the Working Group on LDC Financial Problems dealing with the multilateral banks in debt rescheduling, and on four problem countries -- Mexico, Argentina, Sudan and Zaire.

Mr. Leland's presentation focused on whether or not the multilateral banks (MDBs) should be included in debt rescheduling efforts. Even though it appears inconsistent to exclude the MDBs in rescheduling, private banks and creditor governments prefer to do so because it allows the MDBs to continue to provide financing even after a country develops debt service problems. Every case of rescheduling except Poland has been accomplished with an IMF agreement. Mr. Hormats added that in most cases it is in the U.S. interest to exclude the MDBs from rescheduling. On the question of projects cofinanced by the MDBs and private banks, the working group felt that these loans should be subject to rescheduling.

The Council's discussion centered on the advisability of excluding the MDBs from debt rescheduling, the impact of a more conservative view among private banks on the availability of LDC financing, and the lack of congressional interest in increasing foreign assistance funds to offset shortfalls in available loans.

Mr. Leland outlined the financial outlook for four problem countries. Mexico has accumulated an external debt of roughly \$80 billion and must borrow approximately \$40 billion in the private capital market this year. In order to raise this amount, Mexico must implement austerity measures which will give the market confidence that it is serious about

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solving its debt situation. Argentina is in a similar situation to Mexico with a large external debt, much of which must be refinanced this year. The Falklands conflict has served to sharpen Argentina's financial difficulties. Like Mexico, Argentina is not prepared at this point to accept an IMF program. Sudan and Zaire are examples of seriously mismanaged economies. Both countries are important to U.S. security interests. Additional financing will be required for them until their economies can recover.

The working group concluded that the world financial system is sound and capable of handling the debt problems of countries likely to experience difficulties; however, the basic solution lies in these countries undertaking austerity measures which demonstrate they are serious about resolving their debt situation.

The Council supported the Working Group's recommendation that the Administration continue a policy of excluding the MDBs from multilateral debt reschedulings.

The Council requested the Working Group to follow closely new MDB procedures on cofinancing arrangements to assess their impact on rescheduling agreements and on the credit worthiness of MDBs.

The Council discussed the possibility of measures which the U.S. might take to assist Mexico in the near term and requested that the working group review this issue and report its findings to the Council.

2. Employment and Training Legislation

The Council reviewed a paper, prepared by the Department of Labor, on the status of employment and training legislation in the Congress.

Mr. Angrisani's presentation focused on a comparison of the Administration's proposal to the Senate passed bill and the bill pending in the House. The Senate bill incorporates almost all of the features contained in the Administration's proposal:

- o No public service employment, wages, stipends, or allowances.

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- o Seventy percent of the funds spent on training, with thirty percent of the funds spent on administrative costs and support services.
- o Distributing the funds through block grants to the states, with a pass through to political jurisdictions with populations over 500,000.
- o Heavy private sector involvement in planning and implementing programs tailored to labor market needs.
- o \$3.7 billion budget resolution with the actual amount to be determined in the budget process.

The Administration was not successful in having its proposal introduced in the House. The House bill (H.R. 5320) fails to conform to the Administration's proposals in all major areas, and in effect would reestablish the CETA program. He outlined four options for the Council's consideration in approaching this legislation in the House: (1) attempt to substitute the Senate bill; (2) submit an extensive list of Administration amendments; (3) enter into negotiations on a weaker set of amendments; and (4) send a letter to House Republicans indicating the essential principles which must be included in any House bill.

The Council's discussion centered around the feasibility of the proposed options, possible areas of compromise, the importance of achieving the Administration's proposal, and the prospects for achieving necessary amendments.

The Council approved recommending that the President send a letter to House Republicans outlining the essential principles he feels must be included in any House bill.

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CABINET COUNCIL ON ECONOMIC AFFAIRS

July 29, 1982
8:45 a.m.
Roosevelt Room

Attendees: Messrs. Regan, Block, Donovan, Pierce, Lewis, Edwards, Stockman, Darman, Porter, Macdonald, Fiske, Niskanen, Naylor, Khedouri, McCormack, Cicconi, Thompson, Holmer, Cribb, Platt, Bledsoe, and Denend, Ms. Small, Ms. Fairbanks, and Ms. Dunlop.

1. The Budget Outlook

The Council reviewed a paper, prepared by the Office of Management and Budget, on the Mid-Session Budget Outlook.

Mr. Stockman's presentation focused on the budget update which by law must go to the Congress in July. The normal procedure is to update the President's February budget, incorporating the mid-year economic assumptions and technical revisions on outlays. However, because of the changes to the President's budget resulting from the first budget resolution, the normal procedure has been amended. The economic assumptions used in the budget update are consistent with those reflected in the first budget resolution. Therefore, the economic forecast implicit in the update is not the Administration's best guess of how the economy will perform. It is somewhat more optimistic.

The updated budget outlook reflects slightly higher deficit levels than were included in the President's budget in February. These upward revisions are principally the result of two factors:

1. Because of the recession and remarkable progress on inflation, growth in nominal GNP has been much lower than projected. Lower income yields significantly lower revenues because of the progressivity in the tax system.
2. The sharp increase in real interest rates has doubled the cost of servicing the national debt, which has increased only modestly.

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The budget outlook underscores the magnitude and scope of the challenge for FY 1984 and the need to continue to make substantial progress in reducing federal spending.

The Council's discussion focused on the impact of the tax bill on the deficit, the accuracy of the economic assumptions in the budget update as a measure of what would likely happen, potential areas for spending cuts in FY 1984, the impact of continued high unemployment on outlays, and the prospects for favorable congressional action on the Administration's proposed spending cuts in FY 1983.

2. Rural Housing Block Grants

The Council reviewed a paper, prepared by an interagency group including representatives from the Department of Agriculture, the Office of Management and Budget, and the Office of Policy Development on the rural housing block grant proposal.

Mr. Naylor's presentation focused on action in the Congress on the rural portion of the 1983 Housing Authorization Bill (S. 2607). The Administration proposal sharply reduces funding for rural housing assistance. Senator Harrison Schmitt has introduced legislation to put these funds into a block grant proposal. Senator Thad Cochran has also introduced a bill with over 30 bipartisan cosponsors that preserves current rural housing assistance programs but funds them at roughly twice the level proposed by the Administration. The Administration must take a formal position on the Schmitt bill in the near future.

Mr. Khedouri's presentation focused on the provisions of the block grant proposal. Senator Schmitt's proposal relies on block grants to states to provide housing assistance to the rural poor, replacing the current program of deep loan subsidies. Also, the block grant proposal would take a significant off budget program and place it on budget. He noted that both of these changes are in keeping with goals of the Administration. In addition, the FmHA has been criticized recently for failing to meet the housing needs of poor people in rural areas adequately.

The Council's discussion focused on the importance of bringing federal programs on budget, the importance of staying

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within the FY 1983 spending ceiling, and the consistency of the Schmitt proposal with the Administration's New Federalism principles.

The Council supported the Schmitt proposal as the best alternative and instructed the involved agencies to work with the relevant members of the Congress to pass an acceptable bill. The Department of Agriculture and the Office of Management and Budget will communicate the Administration's support for the block grant proposal in a letter to the Chairman of the Senate Banking Committee.